



Payday Loans

You have probably heard of payday loans and may have even considered using this type of credit service. If you are trying to get ahead financially rather than falling further behind, however, payday loans are not the way to go. Although they provide quick credit, payday loans are extremely expensive and will only worsen your situation in the long run.

By Any Other Name

Payday loans, which are made by check cashers, finance companies, and other companies, are also often called cash advance loans, check advance loans, postdated check loans, or deferred deposit check loans.

How They Work

To receive a payday loan, you write a check for the amount you want to borrow plus the company's lending fee. The company then gives you the amount of your check, less the fee, and does not collect on the check until your next payday. At the time of your next payday, you have several options. You may:

- allow the company to cash the check you wrote for the loan
- go to the company and pay off the loan
- extend the loan, no more than two times, by paying another fee (the most expensive option)

Terms and Rates

Payday loans offer short-term credit at high rates. When you borrow with a payday loan, you pay a percentage of the dollar amount borrowed or a set fee per dollar amount borrowed. Lenders often charge between \$15 to \$50 for every \$90 borrowed. If you decide to extend your loan through another pay period, you must pay the entire fee again. By doing this, you could easily end up using most or all of the money you borrowed to pay these costly fees.

Your Rights

The Truth in Lending Act gives you the right to know the cost of any type of credit you apply for, including payday loans. Thus, you must receive the following in writing:

- Annual Percentage Rate (APR) - the cost of credit on a yearly basis
- dollar amount of the applicable finance charges

Other Credit Sources

When choosing a credit source, always look for the lowest APR and finance charges (including loan fees, interest, and other credit costs). Instead of getting a payday loan, which charges costly fees, consider these alternatives:

- small loan from a credit union
- small loan from a small loan company
- advance pay from employer
- loan from family or friends
- small loan from local community-based organization
- cash advance on credit card

Additional Option

Ask your creditors to give you more time to pay. Be sure to ask if they will charge you a late fee, additional finance charge, or higher interest rate for this service.

Planning Ahead

Avoid the need for payday loans by planning ahead. Consider trying the following:

- Make a budget and calculate your daily and monthly expenses.
- Avoid unnecessary purchases, including small everyday items that add up.
- Build savings. Even if you can only make small deposits you will still have some money to sustain you in an emergency.

Remember - If you need help developing a debt repayment plan or a budget, your local consumer credit counseling service can help. Nonprofit groups will provide credit counseling for little or no cost. Credit counseling programs may also be available through your employer, credit union, or housing authority.

Better Business Bureau
www.bbb.org

Federal Trade Commission
www.ftc.gov

Office of the Illinois Attorney General
www.IllinoisAttorneyGeneral.gov

please visit
www.IllinoisAttorneyGeneral.gov



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